

Opportunities to Improve Beef Producers Profitability Through Direct Marketing

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Introduction

Farming is a challenging occupation. Not only do producers face physical challenges, but profitability can be problematic. Farmers operate in a competitive environment where prices are outside of their control. In addition, external factors, such as weather, can limit grain producers' yields and reduce forage for animal producers. As a result, grain and beef farmers often face years where profits may be small or nonexistent.

Beef producers may face even more challenges than grain farmers. As illustrated in Figures 1 and 2, beef producers' Net Farm Income (NFI) in Kansas tends to lag behind grain farms. The mean and median NFI is lower than grain farms in most years, while the bottom quartile (shown on the bottom of Figure 1) of beef farms in any given year has negative NFI in over half the years. The cumulative distribution of NFI for each farm and for each year (Figure 2) shows that 27.7% of the time, a beef farm has negative NFI, compared to 22.1% for a grain farm.

One factor directly affecting the profitability of beef producers may be the packer/producer margins. U.S. consumers are paying record amounts for beef in grocery stores while beef producers are not receiving a corresponding level of income for their animals. Covid affected packers because of the steps needed to mitigate the pandemic, helping to drive up packer costs. While Covid may have contributed to the higher margins, beef producers may be looking at this situation as an opportunity to earn greater returns than traditional marketing routes offer to producers.

One opportunity available to beef producers is to market directly to consumers. Business to consumer (B2C) models refer to the process of selling products directly between a business and consumers. For beef producers, B2C selling avoids conventional marketing approaches and gives the beef producer the opportunity to sell their animals directly to the end user. This type of direct-to-consumer selling gives a beef producer the potential to earn greater returns than through conventional marketing approaches since the intermediary steps between producer and consumer are reduced or assumed by the

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beef producer and consumer. By having more control over the selling price, producers may be better able to cover their production costs and improve overall profitability.

Many beef producers may not be familiar with the B2C marketing of their animals to consumers or how to go about it. However, the Covid pandemic caused beef supply issues with traditional retailers, which helped increase demand for beef through other sources. In addition, Covid also helped convince consumers that maintaining a larger supply of food on hand was a good practice to ensure food security. Thus, the demand for custom-processed beef appears to be a permanent increase from pre-Covid times.

Producers now have more opportunities to participate in B2C (business to consumer) marketing than ever before given the increased consumer interest in purchasing beef locally. However, there still is a lack of information between beef producers and consumers about how to best facilitate these B2C transactions. If either the consumer or beef producer has unrealistic expectations about the transaction, future use of the B2C model could be reduced. Further, if beef producers can't see an increase in profitability from a B2C model, consumers will find it harder to obtain locally produced beef as beef producers will go back to conventional marketing channels.

This article highlights a USDA-NIFA funded project by the authors that will explore the B2C market for beef producers and consumers to find where the information gaps exist and also to examine the profitability of B2C marketing.

Results of initial survey of beef producers and consumers

The initial part of this project was a survey of both consumers (n=198) and beef producers (n=66). This survey affirmed that Covid greatly increased the interest among consumers for purchasing Kansas-raised beef directly from beef producers. Almost half of the consumers surveyed indicated they purchased their first custom-processed beef in 2020 or 2021 due to the Covid pandemic. The majority (61%) of beef producers indicated their B2C marketing of beef increased in 2020 and 2021. In addition, 65 of the 66 beef producers surveyed thought the direct-to-consumer sales were more profitable than selling their animals through more conventional markets such as sale barns or processors.

The survey and discussions with consumers and beef processors also revealed other areas where information is lacking. In a retail outlet, buyers can choose their beef cuts, examine the quality of meat, and purchase the exact quantity they need. For custom-processed beef, consumers are buying a share of beef cattle. Thus the amount of finished meat is somewhat unknown, and consumers don't know exactly the cuts, quantity, and quality of the meat they are purchasing. In addition, because the hanging weights will vary for each animal, the exact cost per pound is an unknown factor. Finally, consumers

are purchasing more beef in one purchase than they typically do, so there is the perception that purchasing beef directly from a producer is a riskier transaction than buying from a grocery store.

Communication between consumers and beef producers may be lacking as well. Consumers who participated in the survey expressed challenges of communicating with beef producers about the quality and quantity before making their purchases. Beef producers likely have some idea about possible beef yields from an animal, but many consumers do not. Beef producers may think this information is well known, but consumers have little experience with buying beef directly from beef producers in many instances.

Beef producers also experienced difficulties due to the lack of knowledge and communication in direct marketing sales. The majority of beef producers reported that consumers were unhappy with some aspect of the B2C model. The beef producers reported that consumers were unhappy with the overall yield (23%), the portions of some cuts (23%), and the price (13%). Furthermore, 10% of producers indicated that their customers were surprised by unexpected costs. When disputes arose, some producers were forced to reduce prices, waive fees, or provide additional products.

Producers may be overestimating the profitability of the B2C model too. Based on the survey results, less than half of the beef producers use accounting software such as QuickBooks that would allow a beef producer to analyze their direct marketing sales. Also, nearly all the beef producers were using cash accounting (as opposed to accrual accounting), which would make a profitability analysis of their direct marketing sales even more difficult.

Objectives of project

This project has five main objectives. First, analyze the financial performance of 18 to 24 beef producers in Kansas and provide these producers with benchmarking data and financial analysis of their beef operation. Second, examine the benchmarking data more broadly than Kansas by combining it with the benchmarking beef data developed by the University of Minnesota. Third, develop educational resources for the financial management of their beef operations. Fourth, provide individualized financial consultation for all beef producers in the program during the duration of the project. Finally, develop educational resources for beef producers and consumers that address the lack of communication and information about the entire direct marketing and buying of beef process.

While all the objectives are important, the most visible benefit to producers directly involved in the project is the individualized help of a trained agricultural economist. The

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economist will meet with producers two to three times during the year and will use specialized software to help producers analyze the direct marketing aspect of their operation. There will be no cost to the producers during the life of this project.

How to get involved

The authors are still looking for beef producers who want to fully understand the financial performance of B2C selling of beef. Any beef producer interested can contact Gregg Ibendahl (ibendahl@ksu.edu) to learn more about this project.

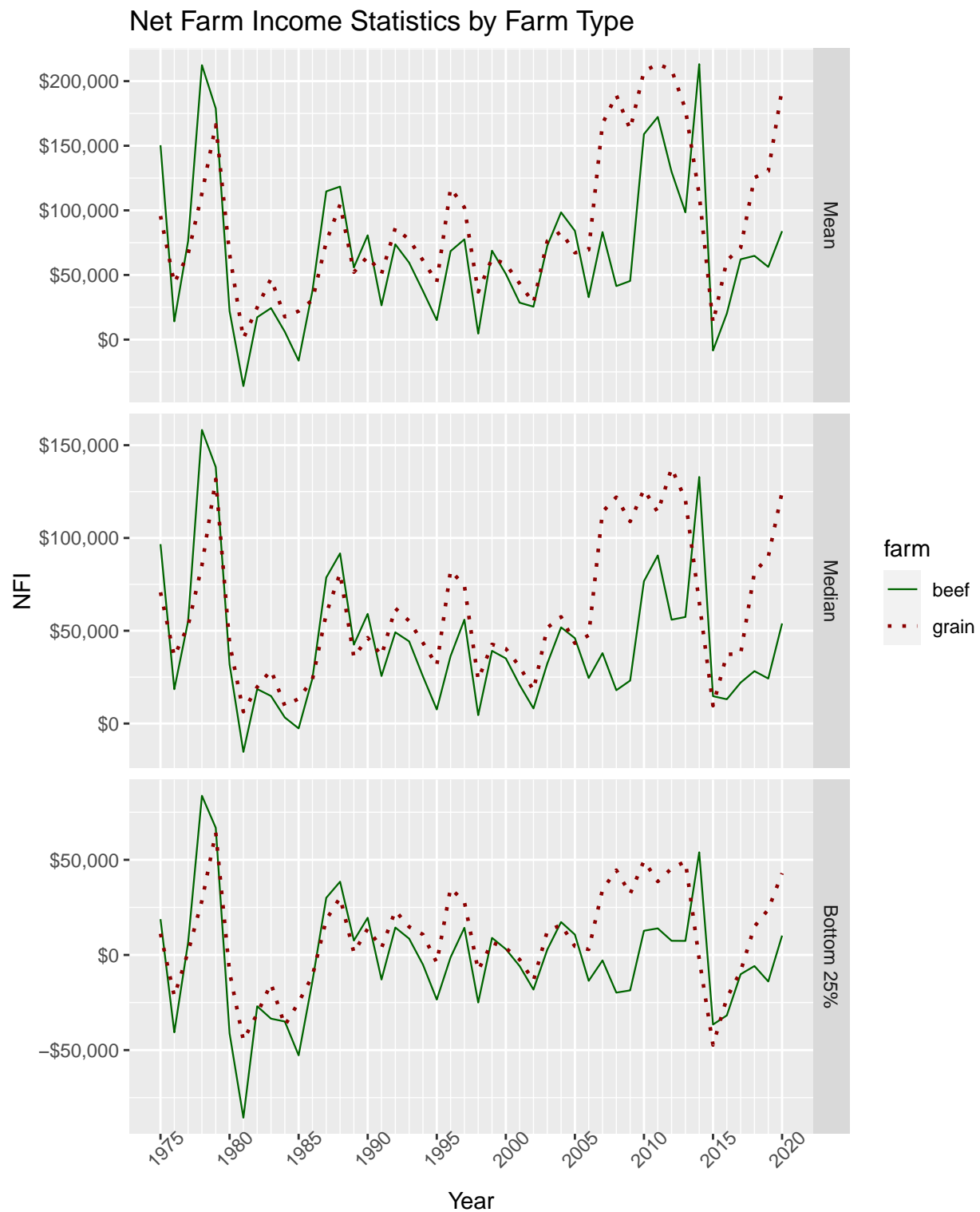


Figure 1. Comparison of Beef and Grain Farms by Statistic

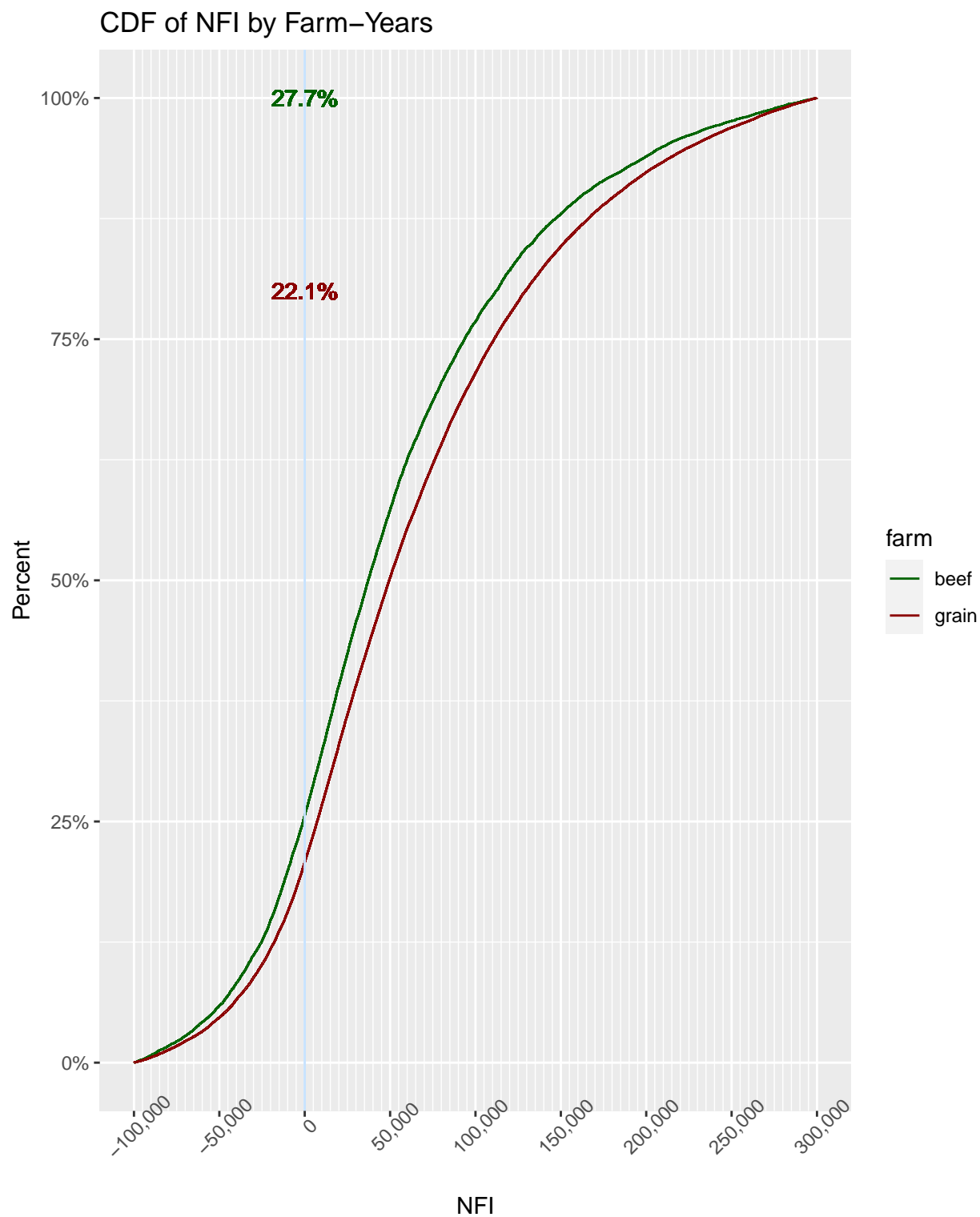


Figure 2. Distribution of Net Farm Income for Beef and Grain Farms